

Message Text

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67

ORIGIN NEA-12

INFO OCT-01 ISO-00 L-03 AID-20 CIAE-00 COME-00 EB-11

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TREAS:SCANNER (INFO)

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TO AMEMBASSY COLOMBO IMMEDIATE

INFO AMEMBASSY NEW DELHI

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E.O. 11652: N/A

TAGS: EAID, CE

SUBJ: MOV NEGOTIATIONS

REF:

NEW DELHI FOR O'DONNELL RLA

1. USG CASE FOR DISTINCTION BETWEEN PAKISTAN AND SRI
LANKA ON DUAL EXCHANGE RATE ISSUE IS CONTAINED IN TWO
BASIC MEMORANDA WHICH WE THINK WERE POUCHED TO YOU PER
STATE 67904, APRIL 1973. THESE ARE:

(A) UNDATED FILE MEMORANDUM WRITTEN 1964 SIGNED BY
STATE, AID, TREASURY, AGRICULTURE LAWYERS WHICH CONCLUDED
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THAT FOR THE PURPOSE OF DETERMINING EXCHANGE RATES FOR

PL 480 AGREEMENTS PAKISTAN BONUS VOUCHER SCHEME IS NOT
RPT NOT CONSIDERED TO BE AN EXCHANGE RATE.

(B) AID GENERAL COUNSEL MEMO DEC. 9, 1969, DETERMINED
THAT SRI LANKA DOES HAVE DUAL RATE. EXERPT OF RATIO NALE
FOR DISTINCTION BETWEEN CEYLONESE AND PAKISTAN CASES IS
QUOTED BELOW: QTE: THE DIFFERENCE BETWEEN THE SYSTEMS
IN CEYLON AND PAKISTAN IS IN THE PURPOSES MEANT TO BE
ACCOMPLISHED BY THEM, AND THE EXTENT TO WHICH THEY AFFECT
FOREIGN EXCHANGE TRANSACTIONS. IN PAKISTAN, BONUS VOUCHERS

ARE USED STRICTLY TO ENCOURAGE EXPORTS. THEY REWARD
THE EXPORTER BY GIVING HIM CASH OR THE RIGHT TO IMPORT
LIMITED COMMODITIES. IF A COMPANY WANTS TO IMPORT
COMMODITIES ON THE BONUS VOUCHER LIST, IT MUST EITHER
PAY FOR THE PRIVILEGE, OR CHANNEL ITS EFFORTS TO AN
AREA YIELDING GOODS FOR EXPORT WHICH WILL WIN BONUS
VOUCHERS. IN CEYLON, FECS ARE AWARDED TO EXPORTERS,
BUT THEY ARE ALSO SOLD GENERALLY BY THE GOVERNMENT TO
ALL PURCHASERS. THEY EFFECT NOT ONLY THE PRICE OF
IMPORTED GOODS, BUT MOST TRANSACTIONS WHICH INVOLVE
FOREIGN EXCHANGE. ONE PART OF THE SYSTEM MIGHT BE
CONSIDERED AS INTENDED TO ENCOURAGE EXPORTS, BUT THE
REST OF THE SYSTEM IS INTENDED MERELY TO INCREASE THE
PRICE OF FOREIGN EXCHANGE. IT IS THIS OVERALL EFFECT
OF THE SYSTEM WHICH MAKES IT A SECOND EXCHANGE RATE.
BECAUSE THE BONUS VOUCHER SYSTEM IN PAKISTAN IS LIMITED
BOTH IN PURPOSE AND TYPE OF TRANSACTIONS WHICH IT AFFECTS,
IT CAN BE DISTINGUISHED AND NOT CONSIDERED A SEPARATE
EXCHANGE RATE. UNQTE.

2. DESPITE IMPRESSION HERE THAT IMF OFFICIALS HAVE
DISTINGUISHED BETWEEN CEYLONESE AND PAKISTANI EXCHANGE
SYSTEMS ON ISSUE OF MULTIPLE RATE, WE HAVE NOT BEEN
ABLE TO NAIL THIS DOWN. THEREFORE FOR PRESENT WE SUGGEST
YOU DRAW ON ARGUMENTATION CONTAINED PARA ONE AND NOT
BRING IMF ATTITUDE INTO NEGOTIATIONS, AT LEAST AT THIS
TIME. WE WILL PURSUE THIS QUESTION. RUSH

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